

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

GENERAL ADJUSTMENTS OF RATES)	
OF MUD CREEK WATER DISTRICT)	CASE NO. 8230
ON MAY 15, 1981)	

O R D E R

On April 24, 1981, Mud Creek Water District ("Applicant") filed an application with this Commission giving notice of a general adjustment of rates to become effective on and after May 15, 1981. The proposed rates will produce additional revenue of \$55,100 annually, an increase of 130.1% based on normalized test year revenue. Applicant stated that the adjustment in rates was necessary in order for it to adequately render service and to maintain its financial integrity. Applicant further stated that emergency, interim rate relief was necessary due to (1) increased wholesale water costs; (2) extraordinary reconstruction costs; and (3) loss of federal subsidy of some operating expenses.

On April 27, 1981, the Commission issued an Order which suspended the proposed rate increase for a period of five months, or until October 15, 1981. The Commission issued an additional Order on May 12, 1981, which scheduled a hearing for June 17, 1981, and directed Applicant to give notice to its customers of the proposed rate increase and the scheduled hearing. On June 3, 1981, having been notified by Applicant that its customers had not been given proper notice of the scheduled hearing, the Commission issued an

Order wherein the hearing set for June 17, 1981, was cancelled and rescheduled for July 1, 1981.

On April 29, 1981, the Division of Consumer Protection in the Office of the Attorney General filed a motion to intervene in this proceeding, which was sustained. This was the only party of interest formally intervening herein.

COMMENTARY

Mud Creek Water District is a non-profit water system organized and existing under the laws of the Commonwealth of Kentucky. Applicant presently serves approximately 354 customers in Floyd County, Kentucky. Applicant produces approximately 7,200,000 gallons of water on an annual basis, and purchases the remainder of its water from the City of Pikeville.

TEST YEAR

Applicant proposed and the Commission has adopted the 12-month period ending February 28, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

REVENUE REQUIREMENTS

In determining its required revenues, Applicant made several adjustments to its test year operating expenses, as shown in Applicant's Exhibits 3 and 4. The Commission finds the adjustments to be proper and acceptable for rate-making purposes with the following exceptions:

(1) Applicant did not normalize revenues to reflect the test year-end level of customers. The Commission has adjusted revenues by \$6,995 to reflect 354 customers at test year-end.

(2) Applicant proposed an adjustment of \$14,453 to reflect the increased cost of water from its wholesale supplier. This adjustment reflected a 20% line loss on purchased water and a 10% line loss on water produced by Applicant. The Commission has reduced this adjustment by \$327, to \$14,126, to reflect a maximum line loss of 15% on purchased water.

(3) Applicant proposed an adjustment of \$40 to test year operating supplies expense of \$19,160 to reflect a general inflationary increase. The Commission disallowed this as it is merely a projection and is inconsistent with Commission policy. In addition, the Commission has reduced test year expenditures by \$11,917 to reflect the elimination of those expenditures for installations and replacements of lines, meters, pumps, valves, etc., that should be classified as capital expenditures, rather than operating expenses.

(4) Applicant proposed an adjustment of \$31,091 to reflect its assumption of those labor, transportation, and maintenance costs formerly provided for through federal government funding that was discontinued as of March 31, 1981. The Commission has reduced this adjustment by \$11,174 to \$19,917, for rate-making purposes, to reflect the elimination of that portion of salaries, fringe benefits, and transportation costs that shall be treated as capital expenditures, rather than operating expenses.

The Commission is well aware of the current reconstruction of Applicant's distribution system and that the Applicant no longer receives the federal funding it did in the test year. Based on these conditions, the Commission believes that Applicant's test year data is less than representative of its current situation. Therefore, after careful consideration of Applicant's physical and financial conditions, and considering the best interests of Applicant's ratepayers, the Commission has made the above adjustment and is of the opinion that it is reasonable and equitable for rate-making purposes.

(5) Depreciation expense was not included by Applicant as a pro forma operating expense. The Commission is of the opinion that Applicant should be allowed to recover the cost of its non-contributed property valued at \$309,000. Based on information submitted by Applicant on July 18, 1981, in response to a request made by the Commission staff at the hearing of July 1, 1981, the Commission has adjusted Applicant's operating expenses to include depreciation expense of \$7,725.

(6) Applicant proposed an inflation adjustment of \$9,590, based on U.S. Department of Commerce statistics released for January and February 1981. On the basis of the broad and general nature of these statistics, as opposed to being specifically related to costs incurred by Applicant, the Commission is of the opinion and finds that this adjustment does not meet the test of being known and measurable and should be denied.

The net effect of all adjustments to Applicant's test year operations is as follows:

	<u>Actual Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 35,349	\$ 6,995	\$ 42,344
Operating Expenses	33,691	36,198	69,889
Net Income	<u>\$ 1,658</u>	<u>\$(29,203)</u>	<u>\$(27,545)</u>

Applicant requested an increase in revenues sufficient to cover its pro forma operating expenses and produce a reserve allowance equal to 2.3 percent of operating expenses. Based on the adjusted operating expenses found reasonable for rate-making purposes and the absence of any current debt service payments, the Commission is of opinion that the operating ratio method is appropriate for determining Applicant's revenue requirements. Applicant's proposed reserve of 2.3% would produce an operating ratio of 98% which the Commission finds to be inadequate. The Commission is of the opinion that an operating ratio of 88% is adequate and reasonable, and, therefore, finds that Applicant's operating revenues should be increased by \$37,075, to \$79,419.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates for water service set out in Appendix A, attached hereto and made a part hereof, will produce gross annual revenues of approximately \$79,419 and are the fair, just, and reasonable rates for service rendered by Applicant on and after the date of this Order.

IT IS THEREFORE ORDERED that the rates proposed by Mud Creek Water District would produce revenues in excess of those found reasonable herein, and, therefore, must be denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates set out in Appendix A, attached hereto and made a part hereof, are approved for service rendered by Mud Creek Water District on and after the date of this Order.

IT IS FURTHER ORDERED that Mud Creek Water District shall file with the Commission, within 30 days from the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 3rd day of September, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katherine Rendall
Vice Chairman

L. M. Harnage
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8230 DATED SEPTEMBER 3, 1981

The following rates are prescribed for customers served by Mud Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

<u>Rates</u>		<u>Monthly Bill</u>
First	2,000 Gallons used per month	\$ 9.00 Minimum Bill
All Over	2,000 Gallons used per month	3.00 per 1,000 Gallons

The minimum bill of \$9.00 shall entitle the user to 2,000 gallons or less per month.